



MISSOURI SECRETARY OF STATE ROBIN CARNAHAN WANTS YOU TO BE INFORMED!



Carnahan Names the Top 10 Threats to Investors for 2006

- 1. Top Threat in 2006: Senior Investment Fraud:** According to the National Center on Elder Abuse, 75% of fraud victims are senior citizens. Con artists tend to prey on elderly investors who have often accumulated lifetime or retirement savings. The Missouri Securities Division receives at least one complaint per week from a senior investor.
"Certified Senior Analysts" and "Free Lunch Seminars" are two particular areas of concern. Individuals who refer to themselves as "Certified Senior Advisors," "Senior Specialists," or other similar designations invite seniors to investment seminars that include free meals. After watching presentations, seniors are invited to attend private sessions on financial planning, taxes and insurance where they are often improperly counseled to make unsuitable investment decisions.
While the presenters may tout reputable sounding designations, these certificates are not issued by the state of Missouri or other federal regulators. Instead, these individuals use their supposed designations to create a false level of comfort among senior citizens. Many times, the only training these individuals have received is in sales techniques that target elderly citizens.
- 2. *Misuse of Variable Annuities:** Variable annuities are sold by investment and insurance representatives and guarantee an income stream for life. However, because they **involve market risk**, an investor may not receive the expected returns and may have to pay **large surrender charges** to access his or her money. Also, brokers often receive higher commissions and investors are charged higher fees for annuities. Variable annuities make sense only for consumers willing to invest for 10 years or longer, *but they are not suitable for many retirees* who cannot afford to lock up their money for a long period of time. In addition, the products are so complex that many investors don't understand what they are actually purchasing.
- 3. *Unsuitable Recommendations:** Purchasing securities always includes a risk of loss. Every investment is unique and every investor has different investment goals. What may be a suitable investment for one investor may not be suitable for another. Securities professionals **must know their customers' financial situation** and refrain from making unsuitable investment recommendations. When securities professionals fail to live up to ethical standards, great harm can be done to individual investors.

For further information, please contact the Securities Division
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4. ***Affinity Fraud:** These scams **exploit the trust** and friendship that exist in groups of people who have something in common, such as **religious, ethnic, cultural or professional groups**.
Con artists frequently are - or pretend to be - members of the targeted group. These con artists often enlist respected community or religious leaders from within the group to spread the word about the scheme and the leaders sometimes become unwitting victims themselves.
5. **Unregistered Individuals Selling Securities:** All individuals selling securities must be registered with the Office of the Missouri Secretary of State's Securities Division or exempt from registration. Those not registered may not be qualified to sell securities and **often fail to disclose important information**. Investors should contact the Investor Hotline at 1-800-721-7996 to check on anyone selling investments or investment advice.
6. **Unregistered Investment Products:** All investments must be registered with the Office of the Missouri Secretary of State, Securities Division or exempt from registration. Unregistered investment products have not been properly examined to ensure they are sound investments. Frequently, investments that are characterized by promises of **"limited or no risk" and high returns** are actually unregistered investments.
7. ***Illegal Promissory Notes:** Con artists scam investors with **false promises of high returns** on what may appear to be a plausible business opportunity. Investors should be aware that even legitimate promissory notes involve risks and are marketed almost exclusively to corporate and other investors, who have the expertise and information to determine if the investment is a good one. Potential investors should be aware that a company's past history of paying high interest and repaying principal is not an assurance that new investors will get their money back as promised.
8. ***Inappropriate Sale of "Equity Indexed" Products:** These complex investment products, which may include certificates of deposit (CDs) and annuities, offer a return that is based on a stock market index, usually the S&P 500. **Returns are not FDIC insured and are dependent on the performance of the stock market.**
A declining stock market means the possibility of no return on an investment. As a result, these products are not suitable to seniors who may need access to their money for retirement living. Equity indexed products are among the **most complex and potentially confusing in the investment industry**, and those considering such an investment should be wary.
9. **Ponzi Schemes and Pyramid Schemes:** These investment scams are essentially **"robbing one person to pay another."** Initial investors are paid off with money taken from new investors. As long as a steady flow of new investors keeps coming in, there will be money to pay off the old investors. This early return on investment is misleading, however, because when new investors stop coming in, the scheme collapses, investors lose their money and the fraudsters walk away rich.
10. ***Oil and Gas Scams:** Many of these scam artists play on the **news of rising oil and gas prices** to encourage investment in their phony operations. "Oil company" representatives call investors for money to start drilling on property, where oil supposedly exists. The investor gives the "oil company" money and never hears from them again.

The above ranking of the Top 10 Threats to Missouri Investors for 2006 is based on the order of prevalence and severity in Missouri and was compiled in conjunction with an annual survey of members of the North American Securities Administrators Association (NASAA).

* Denotes inclusion in the North American Securities Administrators Association's "Unlucky 13" List of Investor Traps for 2006